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FISCAL IMPACT STATEMENT

LS 7958 **NOTE PREPARED:** Feb 2, 2005
BILL NUMBER: SB 587 **BILL AMENDED:**

SUBJECT: Sheriff's Department Pension Plans.

FIRST AUTHOR: Sen. Waltz **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: ___**GENERAL** **IMPACT:** Local
DEDICATED
FEDERAL

<u>**Summary of Legislation:**</u> This bill authorizes a county legislative body to:

(1) Establish a defined contribution plan for employee beneficiaries of the county sheriff's department;

(2) Terminate the pension trust of the sheriff's department and transfer the assets to the defined contribution plan;

(3) Provides that a pension trust may not be terminated unless assets in the trust fund are sufficient to fully fund the accrued benefits for all active and retired employee beneficiaries;

(4) Provides that, if a defined contribution plan is established upon the termination of a pension trust, the contribution rate to be paid by the sheriff's department equals the percentage calculated by determining: (A) the annual contribution necessary to fully fund accrued benefits under the pension trust as of the termination date, as calculated by the actuaries for the pension trust; divided by (B) the total wages paid to the department's employee beneficiaries during the 12 months preceding the termination of the pension trust;

(5) Provides that a sheriff's department may implement a defined contribution plan only if the department has received from the Internal Revenue Service a ruling or determination letter stating that the defined contribution plan is a qualified plan;

(6) Requires the report of the trustees and actuaries of a sheriff's pension trust to be current through the end of the last full calendar quarter before the county holds a budget hearing. (Current law requires the report to

be current through the end of the county's fiscal year.); and

(7) Makes conforming changes.

Effective Date: July 1, 2005.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures: Since this proposal provides that a pension trust may not be terminated unless assets in the trust fund will be sufficient to fully fund the present value of the accrued benefits for all active and retired employee beneficiaries, there would be no fiscal impact as a result. However, there may be administrative expenditures for departments who make the change. These expenditures will vary by department and will be dependent upon local action.

In the case of termination of a pension trust, the bill provides a procedure for determining the initial contribution rate for a newly established defined contribution plan. The bill states that the contribution rate is equal to the annual contribution necessary to fully fund accrued benefits under the pension trust divided by total wages paid by the department to the department's employee beneficiaries. This calculation may result in a positive contribution rate. However, in the event a plan is terminated with sufficient assets to cover the present value of accrued benefits, then the annual contribution rate for the new plan would initially be 0.00%.

Explanation of Local Revenues:

State Agencies Affected:

Local Agencies Affected: County Sheriff's Departments.

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for many of the county police plans, 317-576-1508.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITION

Defined Contribution – A benefit program uses defined contributions when the rate of contribution of the employer (or employee) is fixed and the benefits to be received by employees after retirement are dependent to some extent upon such contributions. The type of defined contribution program most common among public employee retirement systems is the money purchase benefit program.